

# Something to chew on

High-profile mistakes in the food industry have shown the fragility of food supply chains. It's time to wake up, Andrew Fearné tells Charlotte Dennis-Jones

**In the rush to benefit from the opportunities of globalisation, supply chains have not always stood up to the demands placed on them.**

**And this can have serious effects on entire organisations. Andrew Fearné, director at the University of Kent's Centre for Supply Chain Research, says it is imperative businesses realise they are neither as resilient nor as equipped to deal with risk as they had hoped.**

The trouble, he argues, is that the importance of people and good supplier relationships has been swept aside as firms have become dragged into a global growth dogfight. "Global markets are forcing companies to expand the complexity of their operations and they often don't have time to think about how they manage their increasingly complex supply chains," he says.

## The Risks

Some sectors have honed the responsiveness of their supply chains brilliantly - Dell and Toyota being two examples. But when it comes to food and construction in particular, Fearné says they are "about 30 or 40 years behind technology and automotive industries".

When it comes to supply chain weaknesses in the food industry, suppliers and buyers can have a direct impact on human health. "Firms lacking resources or strategic vision have stretched and vulnerable supply chains. The slightest thing can go wrong and you get a 'Bernard Matthews'," he says, referring to the avian flu outbreak and reports of its connection to imported turkey.

In such situations brand reputation is at stake. Fearné says: "While firms rush to compete on prices and gain market share, they are not thinking about the underlying weaknesses in the supply chain that can arise through adversarial, opportunistic relationships with suppliers.

"We've seen the devastation that food safety incidents can have, so there is a growing interest in building more integrity in the supply chain. Add to that CSR, and there is a direct link with the corporate brand - because even if the products arrive on time, they've still got the issue of what the consumer thinks of the brand."

## A Lack of Trust

Many businesses think they have measures in place to strengthen their supply chain efficiency, including the use of RFID. He is scathing about this approach. "If you rely on RFID you're deluding yourself. It just tells you where something has got stuck in the chain. Reducing risk and achieving a resilient supply chain is impossible unless you grow your strategy with suppliers. Most people think it's about ensuring the boat arrives. Their thinking is transactional and operational. It's not strategic."

He says the food industry is a good example of this because "food is traded as a commodity". He adds: "There's very little trust, everything is based around contracts."

Buyers in this sector have the extra challenge of responding to what can be a fickle and increasingly demanding consumer base. But many overlook the implications of suddenly moving their supply base and the impact such decisions can have on the brand.

"Trust is a fundamental differentiator in the supply chain. If that exists, suppliers are likely to go that extra mile to make sure you're looked after."

If the buyer does not show commitment the supplier loses trust and confidence in the long-term profitability of the business he is in. In turn, there is no opportunity to invest in his business, he doesn't invest in technology, he doesn't invest in people, and therefore it diminishes his capability to compete. Meanwhile, the buyer is ignorant of troubles at the supplier end. "The buyer has people at the end of the supply chain who don't know his mission or strategy, yet these are the people on whom he relies to complete any project. Relationships are fundamental to managing risk."

## Building Relationships

In his view, Asda is an example of when a firm has taken its supplier relationships for granted. Ten years ago it was successfully growing on the back of its everyday low pricing strategy. Consumer demand for low cost meant it could run the business profitably without offering a huge amount of product choice. But as more people started to care not only about price but also about premium products, sustainable sourcing and organic and free-range foods, rivals gained popularity.

Fearné believes Asda was unprepared for this: "It said to its suppliers, 'Right, our low-cost pricing strategy has run its course, we want more premium good and value-added stuff, get it?' And suppliers said, 'No, we don't get it, you've spent 10 years telling us to be lean and mean'.

# Something to chew on

"That's a classic case of when a powerful business wants to change its strategy very quickly, without realising there's a huge cost and it involves a capability strategy their suppliers don't have."

Charlotte Dennis-Jones is acting features editor of Retail Week

At that time Asda were just "heads down, taking the cost down, responding to customers' needs", he says. Yet they should have been predicting a change in consumer demand and sharing their concerns about how to respond. Their suppliers could have helped them develop a strategy. Instead, relationships with many of them broke down and the chain was very exposed.

He concedes building relationships with suppliers is not easy. "If you cut resources to save costs, you're just buying time until something goes wrong. If you invest early on in developing relationships with good suppliers, you can turn those good suppliers into excellent ones. Then you trust them and you don't need to be on the plane every other week meeting up. Don't start by building relationships with everyone, look at who is absolutely critical and the rest will follow."

He concludes that investment in people will save businesses money and buyers considerable stress. He wants to challenge senior procurement professionals defending an approach he considers to be short-term and opportunistic: a focus on IT at the expense of a focus on people. "It's like insurance. You may not like paying the premiums, but when you plough your car into a lamppost, aren't you glad that you've got a good policy? It's all very well saying it's complicated and it's expensive, but what's the alternative?"

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